

PATHWAYS ACADEMY

**Financial Report
with Supplemental Information
June 30, 2021**

PATHWAYS ACADEMY

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Wilkerson & Associate P.C.

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LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Pathway Academy

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Pathway Academy, as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Pathway Academy as of June 30, 2021 and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

Members: A.I.C.P.A. and M.I.C.P.A.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2021 on our consideration of Pathway Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering Pathway Academy's internal control over financial reporting and compliance.

Wilkerson & Associate PC

October 21, 2021

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Independent Auditor's Report

To the Board of Directors of
Pathways Academy

We have audited the financial statements of Pathways Academy as of and for the year ended June 30, 2021, and have issued our report thereon dated October 21, 2021. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Pathways Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Pathways Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pathways Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pathways Academy's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members: A.I.C.P.A. and M.I.C.P.A.

To the Board of Directors of
Pathways Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pathways Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Wilkerson & Associate PC

October 21, 2021

PATHWAYS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

This section of the Pathways Academy's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2021. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy financially as a whole. The Government-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Government-wide financial statements by providing information about the Academy's most significant funds - the General Fund, with all other funds presented in one column as non-major funds.

Management's Discussion and Analysis (MD&A)

(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information) Budgetary Information for Major Funds

Other Supplemental Information

Reporting the Academy as a Whole - Government-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy. The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, and community services.

PATHWAYS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

Reporting the Academy as a Whole - Government-wide Financial Statements (Continued)

Unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds • Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes (Agency Funds) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Academy use the following accounting approach:

- Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. The following table provides a summary of the Academy's net assets as of June 30, 2020 and 2021:

<u>NET ASSETS SUMMARY</u>		
	2021	2020
<u>ASSETS</u>		
Current Assets	\$2,048,107	\$877,548
Non-Current Assets	104,196	116,454
<u>TOTAL ASSETS</u>	\$2,152,303	\$994,002
<u>LIABILITIES</u>		
Current Liabilities	\$1,321,233	\$628,825
Long-Term Liabilities	-	800,000
Total Liabilities	1,321,233	1,428,825
<u>NET ASSETS</u>		
Investment in Capital Assets	104,196	116,454
Unrestricted	726,874	(551,277)
Total Net Assets	831,070	(434,823)
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$2,152,303	\$994,002

PATHWAYS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2020 and 2021, the District wide results of operations were:

<u>REVENUES</u>	<u>2021</u>	<u>2020</u>
<u>General Revenues:</u>		
Local Sources	\$ 106,056	\$ 172,672
State Sources - Unrestricted	2,681,592	1,982,839
Total General Revenues	<u>2,787,648</u>	<u>2,155,511</u>
<u>Operating Grants:</u>		
Federal	298,974	127,287
State of Michigan	148,611	108,525
Total Operating Grants	<u>447,585</u>	<u>235,812</u>
Total Revenues	<u>3,235,233</u>	<u>2,391,323</u>
<u>EXPENSES</u>		
Instruction	591,665	565,087
Support Services	1,328,588	1,526,060
Community Services	13,505	69,873
Interest on Long Term Debt	23,324	43,389
Depreciation (unallocated)	12,258	26,107
Total Expenses	<u>1,969,340</u>	<u>2,230,516</u>
<u>INCREASE IN NET ASSETS</u>	1,265,893	160,807
<u>BEGINNING NET ASSETS</u>	<u>(434,823)</u>	<u>(595,630)</u>
<u>ENDING NET ASSETS</u>	<u>\$ 831,070</u>	<u>\$ (434,823)</u>

Analysis of Results of Operations

The District's overall revenues exceeded expenses for the year in the amount of \$1,265,893. Total revenues increased by \$632,137 from the previous year. The increase in revenues was due to increased enrollment combined with State and Federal grants available to the Academy. Expenditures decreased by \$261,176 compared to the prior year, primarily due to reduced transportation and other community service costs.

PATHWAYS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

GOVERNMENT- WIDE FINANCIAL ANALYSIS

FINANCIAL ANALYSIS OF GOVERNMENT’S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District’s governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of government’s net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district’s General Fund is the chief operating fund of the district. The fund balance for the General Fund increased by \$1,128,151. Revenues for the year increased by \$843,910 due to increased enrollment combined with State and Federal grants available to the Academy. The major source of General Fund revenues is State Aid. An analysis follows:

1. Per Student, Foundation Allowance:
 Annually, the State of Michigan establishes the per student foundation allowance. The Academy’s foundation allowance was \$8,111 per student for the 2020-2021 school year which is the same as the prior year.

2. Student Enrollment:
 The District’s blended student enrollment for 2020-2021 was 320 students.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$ 2,305,866	\$ 3,264,881	\$ 3,235,233	41.59	0.91
Expenditures	2,264,022	2,277,495	2,107,082	(0.60)	7.48
<u>TOTAL</u>	<u>\$ 41,844</u>	<u>\$ 987,386</u>	<u>\$ 1,128,151</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the Academy amends its budget during the school year. The June 2021 budget amendment was the final budget for the fiscal year.

PATHWAYS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

ANALYSIS OF BUDGETS: (Continued)

Original vs. Final Budgets

Revenues

Variations between the original and final budget were insignificant.

Expenditures

Variations between the original and final budget were insignificant..

Actual Results vs. Final Budgets

Revenues

Changes between actual revenues and the final budget were insignificant.

Expenditures

Changes between actual expenditures and the final budget were insignificant.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

State Aid

The foundation amount for the 2021-2022 school year is expected to remain consistent. The district's September 2022 enrollment is expected to remain consistent.

The Academy's 2021-2022 adopted budget is as follows:

<u>REVENUE</u>	\$ 2,457,278
<u>EXPENDITURES</u>	<u>2,364,137</u>
<u>NET CHANGE IN FUND BALANCE</u>	<u>\$ 93,141</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Chief Administrative Officer or the Board Treasurer.

Pathways Academy
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PATHWAYS ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2021

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 1,360,864
Deposits	10,000
Prepaid Expenses	33,117
Due From Other Governmental Units	644,126
Capital Assets, Net of Accumulated Depreciation	104,196
Total Assets	2,152,303
Liabilities	
Accounts Payable	26,348
Due to Educational Service Provider	524,103
Accrued Expenses	33,368
Unearned Revenue	36,245
Note Payable	51,169
Long-term Liabilities:	
Due within one year	650,000
Total Liabilities	1,321,233
Net Position	
Invested in Capital Assets	104,196
Unrestricted	726,874
Total Net Position	\$ 831,070

PATHWAYS ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

Functions/Programs	Expenses	Program Revenues		<u>Governmental Activities</u>
		Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and changes in Net Assets
Governmental Activities				
Instruction	\$ 591,665	\$ -	\$ 144,462	\$ (447,203)
Support Services	1,328,588	-	303,123	(1,025,465)
Community Services	13,505	-	-	(13,505)
Interest on Long Term Debt	23,324	-	-	(23,324)
Depreciation (unallocated)	12,258	-	-	(12,258)
Total Governmental Activities	<u>\$ 1,969,340</u>	<u>\$ -</u>	<u>\$ 447,585</u>	<u>(1,521,755)</u>
		<u>General Revenues</u>		
				2,681,592
				106,056
				<u>2,787,648</u>
				1,265,893
				<u>(434,823)</u>
				<u>\$ 831,070</u>

PATHWAYS ACADEMY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2021

ASSETS	<u>General Fund</u>
Cash and Cash Equivalents	\$ 1,360,864
Deposits	10,000
Prepaid Expenses	33,117
Due From Other Governmental Units	<u>644,126</u>
Total Assets	<u><u>\$ 2,048,107</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts Payable	\$ 26,348
Due to Educational Service Provider	524,103
Accrued Expenditures	33,368
Note Payable	<u>51,169</u>
Total Liabilities	671,233
Fund Balances	
Non Spendable	43,117
Restricted	<u>1,333,757</u>
Total Fund Balances	<u>1,376,874</u>
Total Liabilities and Fund Balances	<u><u>\$ 2,048,107</u></u>

PATHWAYS ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2021

Total Fund Balances - Governmental Funds \$ 1,376,874

Amounts Reported for Governmental Activities in the Statement of Net Assets are different because

Capital Assets used in Governmental Activities are not Financial Resources and therefore, not Reported as Assets in Governmental Funds

Cost of Capital Assets	425,874	
Accumulated Depreciation	<u>(321,678)</u>	104,196

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds- Bond payable including premium and deferred charges	<u>(650,000)</u>
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Total Net Position - Governmental Activities \$ 831,070

PATHWAYS ACADEMY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund
Revenue	
Federal Sources	\$ 298,975
State Sources	2,830,203
Local Sources	106,055
Total Revenue	3,235,233
Expenditures	
Instruction:	
Basic Instructions	436,703
Added Needs	154,962
Supporting Services:	
Pupil Support Services	164,359
Instructional Staff Services	93,157
General Administration Services	453,853
School Administration Services	189,313
Business Services	53,260
Operations and Maintenance	220,032
Pupil Transportation Services	51,375
Central Services	103,239
Community Services	13,505
Debt Service:	
Principal & Interest	173,324
Total Expenditures	2,107,082
Net Change in Fund Balances	1,128,151
Fund Balance - July 1, 2020	248,723
Fund Balance - June 30, 2021	\$ 1,376,874

PATHWAYS ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ 1,128,151
<p>Amounts Reported for Governmental Activities in the Statement of Activities are different because:</p> <p>Governmental Funds report Capital Outlay as Expenditure in the Statement of Activities, these Costs are Allocated over their Estimated Useful Lives as Depreciation</p>	
Depreciation Expense	(12,258)
Repayment of note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	150,000
Change in Net Position - Governmental Activities	\$ 1,265,893

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Pathways Academy (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

A. Reporting Entity

Pathways Academy is a public school academy that provides instructional and support services to elementary school students from kindergarten to the fifth grades. The Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

The Academy entered into a three-year contract with Detroit Public Schools Community District to charter a public school academy on July 1, 2019, effective July 1, 2019 through June 30, 2022. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Detroit Public Schools Community District is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays the Detroit Public Schools Community District three percent of State aid as an administrative fee. The total administrative fee paid through June 30, 2020 to the Detroit Public Schools Community District was approximately \$80,100.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy’s reporting entity, and which organizations are legally separate, component units of the Academy. Based on application of the criteria, the entity does not contain component units.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of Net Position and the statement of changes in Net Position) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of the interfund activity has been substantially eliminated from the government-wide financial statements.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted State aid.

Fund-Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The Academy also receives revenue from the State to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

The Academy reports the following major governmental fund:

General Fund

The General Fund is used to record the general operation of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

D. Assets, Liabilities, and Net Position or Equity

Deposits, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired.

The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk are used as depositories.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

The Academy is authorized by Michigan Compiled Laws, Section 129.91 to invest surplus monies in federally insured United States banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is also authorized to invest in bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Capital Assets

Capital assets, which include equipment only is reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have any infrastructure-type assets.

Equipment is depreciated using the straight-line method over the following useful lives:

Furniture and other equipment 5 – 20 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of Net Position. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as issuance costs, during the current period.

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are non-spendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to non-spendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

Fund Equity (Continued)

- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available. There are no governmental funds with a deficit.

Comparative Data

Comparative data is not included in the Academy's financial statements.

District-wide financial statements (statement of Net Position and statement of activities) prepared using full accrual accounting for all of the Academy's activities have been provided.

Capital assets of \$104,196 are currently recorded in the governmental activities column of the statement of Net Position.

The fund financial statements focus on major funds rather than fund types.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Equity (Continued)

Budgetary Data

The Academy is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgetary Act). The following is a summary of the requirements of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Academy formally adopted General Fund budgets by function for the fiscal year ended June 30, 2021. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. No encumbrances were outstanding in the General Fund and Special Revenue Funds at June 30, 2021. During the current year, the budget was amended in a legally permissible manner.

The combined statement of revenues, expenditures and changes in fund balances – all governmental fund types is presented in conformity with generally accepted accounting principles. The combined statement of revenues, expenditures and changes in fund balances – budget and actual is presented on the same basis of accounting used in preparing the adopted budget.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Excess of Expenditures over Appropriations in Budgeted Funds - During the year, the Academy incurred expenditures in the General Fund, which in the aggregate were not in excess of the overall department amounts budgeted.

	Budget	Actual	Variance
Pupil Support	\$ 91,911	\$ 164,359	\$ 72,448

NOTE 3 - DEPOSITS

State statutes and the Academy’s investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers’ acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy’s deposits are in accordance with statutory authority. The Academy has designated one bank for the deposit of its funds and has not adopted any other formal investment policy.

The Academy’s cash is subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Academy’s deposits may not be returned to it. The Academy evaluates its depositories and only those with an acceptable risk level are used for the Academy’s deposits. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 3 - DEPOSITS (Continued)

At year end, the Academy's deposits were reported in the basic financial statements as cash and cash equivalents of \$1,360,864.

The deposits of the Academy were reflected in the accounts of the financial institution at \$1,373,880 of which \$250,000 is covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS

Capital assets activity of the Academy's governmental activities was as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2021</u>
Assets being depreciated:				
Leasehold Improvements	\$ 159,627	\$ -	\$ -	\$ 159,627
Computer Equipment	189,804	-	-	189,804
Furniture	<u>76,443</u>	<u>-</u>	<u>-</u>	<u>76,443</u>
Total capital assets being depreciated	425,874	-	-	425,874
Accumulated Depreciation:				
Leasehold Improvements	58,530	10,642	-	69,172
Computer Equipment	174,447	1,616	-	176,063
Furniture	<u>76,443</u>	<u>-</u>	<u>-</u>	<u>76,443</u>
Total Accumulated Depreciation	<u>309,420</u>	<u>12,258</u>	<u>-</u>	<u>321,678</u>
Net capital assets	<u>\$ 116,454</u>	<u>\$(12,258)</u>	<u>\$ -</u>	<u>\$ 104,196</u>

Depreciation expense was not charged to specific activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 5 - DUE FROM OTHER GOVERNMENTS

Intermediate school district source receivable	\$	4,172
State source receivable		562,871
Federal source receivable		77,083
		77,083
Total due from other governments	\$	644,126

All receivables were collected subsequent to year end.

NOTE 6 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employees' injuries (workers compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inceptions.

NOTE 7 - MANAGEMENT AGREEMENT

In June 2019, the Academy entered into a management agreement with Innovative Educational Programs of Michigan, LLC ("IEP") to provide education management services. The Academy is obligated to pay IEP varying amounts based upon the services provided according to the contract. The fee is mutually agreed upon annually and each payment to IEP is approved by the board at a regularly scheduled open meeting. The fee for the 2020-2021 school year amounted to approximately \$357,800.

NOTE 8 - MSPERS LIABILITY

The Academy contracted with Innovative Educational Programs of Michigan, LLC to provide all staffing personnel during the year under audit. Consequently, all staffing cost is treated as purchased services in these financial statements.

The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year ended June 30, 2020.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 9 - OPERATING LEASE

The Academy entered into an operating lease agreement with NY Jefferson, LLC effective September 1, 2019 to lease its facility located at 11340 East Jefferson in Detroit, Michigan. The lease includes a three-year original term with two additional five-year renewal options available at the Academy’s discretion. The Academy is responsible for insurance, repairs and maintenance for the building. Rent expense related to this lease is \$110,250 for the period ended June 30, 2021.

June 30, 2022	\$	110,250
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The Academy entered into a sub-lease agreement for a portion of their leased property commencing September 1, 2019. The agreement called for \$2,379 in monthly payments to be made through August 31, 2022. Rental income for the year ended June 30, 2021 totaled \$28,548. Future minimum receipts under the lease are as follows:

June 30, 2022	\$	28,548
June 30, 2023		<u>4,758</u>
Total	\$	33,306

NOTE 11 - LONG-TERM DEBT

In April, 2014, the Academy entered into a Memorandum of Understanding (“MOU”) with Innovative Educational Programs (“IEP”), its Educational Service Provider. The parties agreed that IEP waives and foregoes all recourse for immediate reimbursement of expenses and payment of fees related to opening, organizing, and preparing the Academy. The Academy agreed to use the entirety of its annual surpluses subsequent to the 2014-2015 school year to repay the amount due until such time that the balance due is eliminated. The balance as of June 30, 2021 was \$650,000. As of June 30, 2021, the entire remaining balance was reported as the current portion due within one year.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 12 - CONTINGENCIES

The COVID-19 pandemic that the world is experiencing is unprecedented. It is nearly impossible to fully anticipate the long term effects the impact it will have on the economy and the Academy's operations. As of the date of these financial statements, the Academy continues to evaluate and implement risk mitigation tactics including all aspects of the Academy's activities related to public school education, relationships with local, state, and federal government funding sources, compliance with the requirements of these funding sources and with business transactions with customers, vendors and human interaction within and outside of the Academy.

REQUIRED SUPPLEMENTAL INFORMATION

PATHWAYS ACADEMY
 REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2021

	Original Budget	Final Budget	Actual	<i>Over (Under) Final Budget</i>
Revenue				
Federal Sources	\$ 180,738	\$ 106,357	\$ 298,975	\$ 192,618
State Sources	1,937,543	2,912,209	2,830,203	(82,006)
Local Sources	187,585	246,315	106,055	(140,260)
Total Revenue	<u>2,305,866</u>	<u>3,264,881</u>	<u>3,235,233</u>	<u>(29,648)</u>
Expenditures				
Instruction:				
Basic Instructions	451,811	478,772	436,703	(42,069)
Added Needs	148,600	212,738	154,962	(57,776)
Supporting Services:				
Pupil Support	132,044	91,911	164,359	72,448
Instructional Staff	96,309	100,003	93,157	(6,846)
General Administration	344,422	481,164	453,853	(27,311)
School Administration	261,426	237,774	189,313	(48,461)
Business	48,750	58,300	53,260	(5,040)
Operations and Maintenance	344,356	241,800	220,032	(21,768)
Pupil Transportation	218,482	70,600	51,375	(19,225)
Central	120,006	115,054	103,239	(11,815)
Community Services	71,816	15,816	13,505	(2,311)
Debt Service:				
Principal & Interest	26,000	173,563	173,324	(239)
Total Expenditures	<u>2,264,022</u>	<u>2,277,495</u>	<u>2,107,082</u>	<u>(170,413)</u>
Net Change in Fund Balance	41,844	987,386	1,128,151	140,765
Fund balance - July 1, 2020	<u>248,723</u>	<u>248,723</u>	<u>248,723</u>	<u>-</u>
Fund balance - June 30, 2021	<u>\$ 290,567</u>	<u>\$ 1,236,109</u>	<u>\$ 1,376,874</u>	<u>\$ 140,765</u>